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TO RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY  
RUEHC/SECSTATE WASHDC PRIORITY 1378  
INFO RUEHDH/AMCONSUL DHAHRAN PRIORITY 0161  
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RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

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SIPDIS

PLEASE PASS USTR FOR JASON BUNTIN

E.O. 12958: N/A

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SUBJECT: SAUDIS DELAY JOINT VENTURE APPROVAL FOR TWO US  
INSURANCE FIRMS

¶1. (SBU) On August 10 Representatives from American Life Insurance Company (ALICO) briefed Emboffs on their meeting earlier that day with Saudi Monetary Authority (SAMA) Insurance Supervisor Mohammed Al-Shayea.

¶2. (SBU) Al-Shayea gave the ALICO reps gave no inkling when/if a royal decree sanctioning the ALICO/AIU joint venture with Arab National Bank (ANB) would be forthcoming, nor did he agree to issue an extension beyond August 24. The one bright spot is that he said it would be useful, to have a letter from either Treasury or the New York Fed addressing AIG's solvency issues. (Embassy Note: Treasoff has conveyed this point to Treasury. End Note)

¶3. (SBU) ALICO has had a branch operation in Saudi Arabia since 1954, AIU since 1986. ALICO and AIU are units of AIG. In 1996, KSA issued regulations requiring insurance companies to work only through banks. ALICO and AIU submitted a joint venture application with ANB (ALICO 20%, AIU 20%, ANB 30%, and 10% for an IPO) to SAMA in October 2007. Since October 2007, SAMA has issued new licenses to nearly 20 other insurance firms, formed under the new regulations, but has only granted ALICO and AIU extensions. The most recent extension expires on August 24th.

¶4. (SBU) In lieu of an extension, SAMA has suggested to ALICO/AIU that they sign a Letter of Commitment to stop writing new policies on August 24th. Such a letter would be a sign of good faith,, SAMA said. ALICO and AIU are unwilling to make this commitment, because it will take 6 to 12 months to launch the joint venture, even if the JV were approved. It is not clear to ALICO/AIU exactly how the expiration of the deadline will affect them since SAMA has not yet drafted the relevant implementing regulations. In a worse case scenario, the two firms might have to cease writing new policies, which would cause them to suffer up to \$100 million in lost premiums and to lay off up to 200 employees.

¶5. (SBU) On August 2 Emboffs met with the SAMA Deputy Governor for Technical Affairs Abdulrahman Al-Hamidy for clarification about the ALICO/AIU JV application. While alluding darkly to the uncertainties surrounding AIG and complaining about a lack of commitment8 from ALICO/AIU, Hamidy insisted that ALICO/AIU should discuss this issue with SAMA directly, not with U.S. regulators. At Emboffs' urging, he agreed that Insurance Supervisor Al-Shayea would meet with the two firms within a week.

Comment:  
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¶6. (SBU) It is clear that SAMA is very concerned about the solvency of AIG. Though it has stopped short of giving this as the reason for stopping the ALICO/AIU JV, preferring

instead to allege, as far as we can tell, unsubstantiated irregularities by ALICO/AIU. In this regard, AIG reportedly angered SAMA during the WTO accession talks by insisting on insurance branching rules (which KSA has still not promulgated). In any case, SAMA is conveying the impression that it is intent on driving ALICO/AIU from the market.

ERDMAN